Distr.
LIMITED
TD/B/SC.7/L.5/Add.3
30 August 1967
Original: ENGLISH

United Nations Conference on Trade and Development

TRADE AND DEVELOPMENT BOARD
Fifth session
Sessional Committee

Draft report of the Sessional Committee

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Chapter V

REPORT OF THE COMMITTEE ON COMMODITIES

(agenda item 5)

1. The documents relating to item 5 were the report of the Committee on Commodities on its second session (TD/B/120), the two reports of the Advisory Committee to the Board and to the Committee on Commodities on its first and second session (TD/B/109 and TD/B/127), the report of the Permanent Group on Synthetics and Substitutes on its first session (TD/B/147) and a note by the UNCTAD secretariat (TD/B/143) concerning the examination of the form, pattern and scope of possible inter-governmental consultative machinery within the framework of the secretariat study on trade liberalization. Attention was also drawn to the UNCTAD Commodity Survey, 1966 which reviewed developments on commodity markets in the first half of the Development Decade and analysed longer-term trends.1/

2. The Committee's second session had been largely devoted to the examination of the main elements of commodity policy. Under this heading it had considered in greater detail selected areas in which early international action might be technically feasible, more particularly the two questions relating to (i) the operation and financing of buffer stocks and (ii) the role and financing of diversification programmes. The Committee had also touched upon the question of basic principles for pricing policy, but in view of the complexity of the issues involved had referred this topic for further study to the Advisory Committee which at its second session, focussed its

1/ A review of the current market situation in selected commodities was carried out by the Permanent Sub-Committee on Commodities which reported on this matter to the Committee on Commodities (see TD/B/C.1/21). The Commodity Survey, 1966 referred to above was issued under symbol TD/B/C.1/23/Rev.1 and subsequently published (United Nations publication, Sales No. 67.II.D.9).

attention on pricing policy and trade liberalization.[1] Trade liberalization and the closely related questions of trade expansion and trade promotion had constituted the other main items considered during the second session of the Committee.

3. With regard to the general commodity situation, representatives of developing countries and socialist countries of Eastern Europe stated that no satisfactory progress had been achieved since the first Conference and expressed their concern about the adverse trends and poor prospects for commodity exports of developing countries. Opinions differed as to the advisability of re-examining the general commodity situation at the second Conference. Some representatives considered that such a review based on an agreed evaluation of the commodity situation would place the problems to be discussed at the second Conference in their proper perspective and would provide a factual background for the discussion of selected issues. Others endorsed the Advisory Committee's view that the Conference should concentrate on selected issues suitable for negotiation and early action and should not spend undue time in reviewing the current commodity situation (TD/B/127, para. 25).

4. There was general agreement that international action in the field of primary commodities could be successful only if it proceeded on a commodity-by-commodity basis. Nonetheless, it was recognized by the representatives of developing and socialist countries that there was a need for a general formulation of the objectives and main elements of international commodity policy.[2] In this connexion some of these representatives stressed the need for a draft general agreement on commodity arrangements to be prepared for the second Conference. Whilst considering that a general set of guidelines on techniques of market stabilization and pricing policy might admittedly be useful and was of theoretical interest, the representatives of some developed market economy countries emphasized that it was not the lack of such a set of guidelines which had prevented or impeded the negotiation and conclusion of commodity agreements. In their view, the discussion and formulation of such guidelines would be of limited value and would take too much time at the second Conference.

5. Many representatives expressed the hope that the current consultations on cocoa would lead to satisfactory results so far as negotiations leading to the conclusion of an international cocoa agreement were concerned. It was further stated that

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1/ See document TD/B/127 and paragraph 69 of the report of the Committee on Commodities (TD/B/120).

2/ Item II (b) of the draft provisional agenda of the second session of the Conference as adopted by the Board at its fourth session.

considerable importance was attached to the forthcoming session of the FAO Study Group on Oilseeds, Oils and Fats (TD/B/120, paragraph 20), which was to be jointly serviced by FAO and UNCTAD. Some representatives requested the secretariat to initiate studies on the tariff and non-tariff barriers affecting the trade in raisins and dates.

6. Many representatives expressed the opinion that the subject of the operation of buffer stock schemes,[1/] in conjunction with other market stabilization techniques, was one of the key issues on which a consensus might be reached at the second Conference. It was also widely recognized that the number of commodities susceptible to the operation of buffer stock schemes depended upon technical considerations and the characteristics of the various commodity markets, and that such schemes were especially, though not exclusively, applicable to the commodities included in the first of the three categories adopted by the Advisory Committee (TD/B/109, para. 15). It was, however, stressed that the success of such buffer stock schemes was dependent upon the availability of sufficient financial resources and adequate pre-financing arrangements. There was widespread support for the principle that the financing of buffer stocks should be shared by both importing and exporting countries. While some representatives were unable to endorse the idea of the establishment of a central fund to meet the pre-financing requirements of such buffer stocks, others were in favour of the establishment of such a fund; still others expressed the view that the problems involved in such a central fund should be explored by the secretariat before a decision on this matter could be taken. In this connexion also the secretariat was requested to study which commodities lend themselves to the operation of buffer stock schemes.

1/ Item II(b)(i) of the draft provisional agenda for the second Conference.

7. There was broad agreement on the crucial importance of diversification[1] in the strategy of economic development and in dealing with commodity problems, and in this regard on the need for close co-operation between developing and developed countries. The representatives of several developing countries suggested the possibility of creating an international diversification fund. The need was stressed to consider various patterns of diversification, such as the expansion of production of commodities with an export growth potential, the development of the processing of primary commodities at present being exported in crude form and the creation of labour intensive industries. It was pointed out by the representatives of developing countries that their countries' efforts to achieve greater diversification should be accompanied by the removal of trade barriers and easier access to the markets of developed countries and that the latter countries should also intensify their efforts to diversify their own economies, particularly as regards structural readjustments in their primary sectors and, where appropriate, in their processing industries. In considering the subject of diversification, several representatives stressed the need to increase domestic food production in order to improve nutritional levels and reduce the import requirements of certain developing countries. Views differed, however, as to the advisability of including an item concerning the world food problem as a separate item on the agenda of the second Conference.[2]

8. The complex issue of pricing policy[3] which had been referred for consideration to the Advisory Committee, received considerable attention in the discussions. The suggestions and conclusions put forward by the Advisory Committee in document TD/B/127 were, on the whole, received favourably. Considerable support was expressed also for the Advisory Committee's view that "in the short term, the main objective of pricing policy might be to minimize the fluctuation in prices of primary commodities, and/or in the earnings of developing countries from the export of such commodities. ... Over the longer term, international policy

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1/ Item II(b)(ii) of the draft provisional agenda for the second Conference.

2/ Item proposed by the United States delegation (TD/B/150).

3/ Item II(b)(iii) of the draft provisional agenda of the second Conference.

should be directed to improving the trend in the export earnings of developing countries from sales of primary commodities. For commodities in group I - that is, commodities produced wholly or mainly by developing countries, and facing inelastic demand conditions - this objective could be achieved within the context of international commodity agreements, by market operations designed to raise prices in order to improve the export earnings of developing countries. ... For certain commodities in group III, ... this objective might also be considered" (TD/B/127, paras. 7 and 9) In this connexion several representatives stressed that, if a pricing policy was to be successful, due account must be taken of all relevant factors of individual commodity markets, particularly the long-term trends in supply and demand (in order to avoid structural imbalances) and, in the particular case of natural products facing competition from synthetics, the danger of a gradual penetration of the markets by substitutes as a result of the establishment of too high a price level for the natural product.

9. As regards the formulation of item II(b)(iii) of the draft provisional agenda for the second Conference, this matter was referred to an informal Contact Group, which was, however, unable to reach agreement.

10. Turning to the question of trade liberalization,[1/] many representatives emphasized the need for improved market access for commodities, in particular those of interest to developing countries through a reduction of agricultural support measures and the reduction and gradual elimination of tariff barriers, quantitative restrictions and also internal fiscal charges which inhibited the consumption of products exported by developing countries. Representatives of primary commodity exporting countries considered that the objective of improving market access deserved high priority and that it was essential to adopt a constructive and action-oriented approach on this matter in order to achieve positive results at the second Conference. Whilst recognizing the social, economic and political difficulties in developed countries which hampered progress in this field, the representatives of many developing countries urged industrialized countries to take additional measures with a view to reducing or eliminating tariff and non-tariff barriers to trade in primary commodities of interest to developing countries. Such a policy, it was emphasized, did not stand in the way

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1/ Item II(c) of the draft provisional agenda for the second Conference.

of the successful conclusion of particular international commodity agreements. Where appropriate, trade liberalization measures and/or access commitments could be negotiated within the framework of such commodity agreements. In this context, several representatives suggested that the second Conference might explore the possibility of drawing up a timetable of trade liberalization measures to be enacted by the end of the Development Decade in the spirit of the recommendation in annex A.II.1 to the Final Act of the first Conference. The representatives of several developed market economy countries were, however, of the opinion that the question of trade barriers tended to be over-emphasized. Although the removal of trade barriers was deemed desirable per se, they felt that it was equally important to consider the problems connected with inelastic supply, the need to expand both domestic production and consumption in the developing countries themselves, and the necessity to increase productivity and marketing techniques so as to make the export products of developing countries more competitive.

11. Whilst acknowledging that a few, isolated trade liberalization measures had been taken by developed countries, the representatives of developing countries expressed their disappointment at the limited progress made in this field since the first Conference. They considered it a matter of regret that a number of developed market economy countries had not yet implemented the recommendations adopted either by the first Conference or by the GATT Ministerial meeting of 1963. Moreover, they expressed disappointment with the outcome of the Kennedy Round which, in their opinion, had consisted primarily of an exchange of concessions among the industrialized countries. Since the extent and scope of developed countries' concessions to the developing countries could not yet be fully assessed, the wish was reiterated that the effects of the Kennedy Round on the primary commodity exports of developing countries should be evaluated in the documentation to be prepared by the secretariat for the second Conference.

12. Representatives of developing countries stressed the need for the establishment of inter-governmental machinery within UNCTAD in order to foster progress in the field of trade liberalization and trade expansion. As regards the study to be undertaken by the secretariat on this matter, attention was drawn to the secretariat note (TD/B/143). Representatives of developed market economy countries considered that the UNCTAD Committee on Commodities and the GATT Committee on Trade and Development provided adequate machinery for this purpose.

13. All the representatives who participated in the discussion stressed the importance which their Governments attached to trade promotion as a means of expanding the commodity exports of developing countries. Greater assistance in this field was thought by some to be a prerequisite; it was stated that, to be fully effective, trade promotion should be accompanied by measures to improve access to markets. Other representatives stressed the importance of quality control, grading and adaption of products to consumer requirements.

14. The representatives of some socialist countries of Eastern Europe drew attention to special measures which their governments apply in their trade relations with developing countries and which have resulted in a considerable increase of imports of commodities from developing countries. These measures and trading methods have also contributed to the stabilization of commodity markets.

15. The report of the Permanent Group on Synthetics and Substitutes (TD/B/147) was introduced by its Chairman, Mr. R.C.S. Koelmeyer (Ceylon). He stated that the presence of a large number of observers at the first session of the Permanent Group was indicative of the deep concern which the threat of synthetics elicited in countries depending on natural products for a significant part of their export earnings. In view of the continuous pressure on the price of natural products and the latter's declining share in the total consumption of certain commodities, the problems caused by the expanding production of syrthetics and substitutes deserved continuous attention and required international co-operation with the aim of achieving structural readjustments. Attention was also drawn to the recommendations put forward in the Permanent Group on Synthetics and Substitutes for further consideration by the appropriate UNCTAD organs (TD/B/147, para. 33).

16. In the discussion on the report of the Permanent Group on Synthetics and Substitutes it was widely recognized that the problems posed for natural products by synthetics were very serious and deserved continous attention. Several representatives drew attention

to the emergence of new products which threatened the position of leather, coconut oil and some of the hard fibres in traditional markets. With respect to leather one representative proposed that adequate provision be made in the work programme of the Permanent Group to deal with this problem. Since the recommendations put forward in the Permanent Group on Synthetics and Substitutes (TD/B/147 paragraph 33) had not, for lack of time, been examined by governments, it was recommended that they be referred to the second Conference. In this connexion, no objection was expressed to the proposal that the question of synthetics should appear as a separate sub-item on the agenda of the Conference. The representative of one socialist country of Eastern Europe reiterated his country's reservation on the second paragraph of recommendation A.II.7, because this part of the recommendation did not take into account the special features of a socialist planned economy.

17. The Sessional Committee considered two draft resolutions annexed to the report of the Committee on Commodities on its second session. The sponsor of the first resolution on the convening of a United Nations Wheat Conference, whilst reaffirming the general principle that convening of this conference was an unquestionable prerogative of UNCTAD, withdrew the above draft resolution taking into account recent developments in this field. The Sessional Committee unanimously adopted the amended text of the draft resolution[1/] on the co-ordination of the activities of bodies dealing with problems of commodity trade, except one yet unsettled point in square brackets[2/].

18. The Sessional Committee recommended that the Board take note:

(i) of the report of the Committee on Commodities on its second session,

(ii) of the two reports of the Advisory Committee to the Board and to the Committee on Commodities on its first and second sessions and

(iii) of the report of the Permanent Group on Synthetics and Substitutes on its first session.

1/ TD/B/SC.7/Conf. Room Paper 1

2/ Last two lines of TD/B/SC.7/Conf. Room Paper 1